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SUBJECT: SHANGHAI WTO CENTER DIRECTOR SPEAKS ON THE FINANCIAL CRISIS
AND RESULTS OF WASHINGTON VISIT

REF: SHANGHAI 436

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Summary

¶1. (SBU) In an October 9 meeting with the Consul General, Shanghai WTO Affairs Consultation Center Director Wang Xinkui emphasized that the global financial crisis will have a deep effect on the Chinese economy, particularly the trading sector. It will also have significant implications for the global trade regime. According to Wang, the financial crisis will create a call for a new international mechanism to handle global financial issues. Regarding the WTO Center's September visit to Washington, Wang was enthusiastic about his meetings with various federal agencies, expressing deep appreciation to the State China Desk and the Consulate for assistance in arranging the meetings. Wang also emphasized the WTO Center's unique role in shaping China's trade policy, particularly in its support role for the Ministry of Commerce (MOFCOM). End Summary.

Perspectives on the Global Financial Turmoil

¶2. (SBU) According to Wang, the onset of the global financial crisis marked the beginning of a global economic downturn that will persist for some time. The impact will be felt throughout China's economy. Wang foresaw that the crisis will have far-reaching implications for global trade as major economies continue to contract. As a result of the crisis, China is taking a series of measures to stimulate the economy, such as lowering the banking reserve ratio and eliminating the bank deposit interest tax. Economic stimulus measures would also be a major topic of discussion at the third plenary session of the Chinese Communist Party's Seventeenth Party Congress (met October 9-12). As a reaction to the crisis, Wang said many people in China will question the country's path of openness and reform, particularly in the financial sector. However, he is optimistic the Central Government will persist in its path of economic liberalization and will send policy signals to this effect.

¶ 13. (SBU) Chinese export industries will be the first to suffer from the global economic slowdown, Wang asserted. Many - Wang said a "vast majority" - of China's exports are labor-intensive, thus the global economic slowdown will have a major impact on China's employment rate. Just as a Hangzhou Vice Mayor noted in a separate October 9 meeting with the CG (reftel), Wang said Chinese officials are paying close attention to the impact on exporters due to concerns about unemployment. During the early stage of the financial crisis in the United States, Chinese leaders pinned their hopes on the E.U. economy remaining robust and picking up some of the slack from the declining U.S. economy. Given that the E.U. economy is also experiencing trouble, the Central Government now is even more intent on stimulating domestic demand. Wang recognized, however, domestic stimulus measures will take time and expected China's growth rate to continue slowing. On the positive side, Wang believes a global economic downturn will reduce inflationary pressures on labor and material costs in China.

A New Global Economic System

¶ 14. (SBU) Wang said the global economic system established after World War II is irreparably broken. The three pillars of global stability - the U.N., IMF, and WTO - are no longer able to support the weight of the international economy. Of the three, the WTO is the only institution playing a truly constructive role, and therefore should be given the responsibility needed to handle international financial issues. Wang emphasized that it is necessary to create international rules for "trade in finance" through an international mechanism. This is the only way to ensure a continued liberalization of international finance. Wang said the current financial crisis would not have reached such a global scale had there been a coordinated global response. As a result, there will be more calls for multilateral coordination of financial issues.

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Recent WTO Center Visit to Washington

¶ 15. (SBU) The Shanghai WTO Center was recently tasked by MOFCOM to research and develop a quantitative methodology to evaluate free trade agreements. As part of that research, a delegation from the Shanghai WTO Center, including Wang Xinkui, traveled to Washington in September 2008 to meet with a range of Washington agencies, including the Government Accountability Office, Treasury, Agriculture, the International Trade Commission, and Commerce. Wang was particularly pleased with his visit to Department of Commerce Bureau of Economic Analysis (BEA), noting that the work of BEA and the Shanghai WTO Center have a lot in common. He said that China lacks the "skills and a comprehensive model" for evaluating trade agreements and hoped to draw on U.S. knowledge and experience.

¶ 16. (SBU) Wang said the WTO Center plans on revamping its organizational model and welcomed U.S. assistance in this endeavor. A key part of this effort includes technical training on the design, implementation and utilization of a trade evaluation model. According to Wang, some of the agencies he met in Washington are willing to provide assistance in this regard. The CG welcomed the opportunity to continue working with the WTO Center to build on common ground the WTO established with Washington agencies.

WTO Center's Unique Role

¶ 17. (SBU) Established in 2002, the Shanghai WTO Center operates as an NGO, but is fully funded by the Shanghai Municipal Government. Wang described the center's responsibilities as three-fold: provide trade advice and research to MOFCOM, provide legal advice on trade regulations and laws to the Shanghai Municipal Government, and serve as a platform for trade

discussions with foreign institutions. He noted that approximately 80 percent of his time is devoted to the first responsibility, which including writing a yearly market access report and providing analysis on trade agreements. Wang also emphasized the WTO Center's role as a conduit to the Shanghai and Central Governments, relaying suggestions and opinions of foreign institutions on China's trade policy. The Center's staff includes experts from universities and research institutes in China and abroad.

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